



# WEEKLY ECONOMIC DIGEST

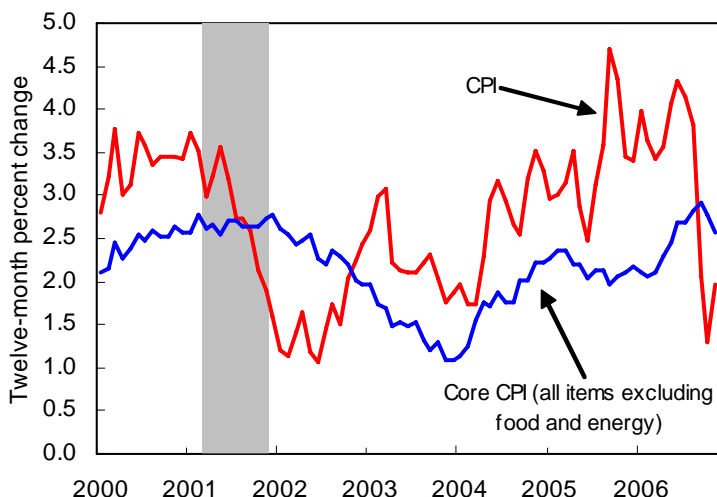


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

December 19, 2006

## Consumer Prices Tame, Retail Sales Solid Last Month; Housing, Trade Still a Concern

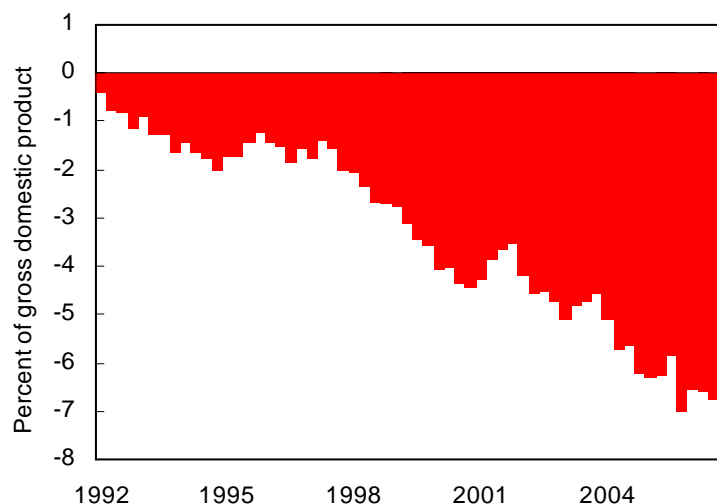
Consumer Price Indexes



Sources: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

U.S. Current Account Balance



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

- **Consumer prices were unchanged in November.** Both the consumer price index (CPI) and the core CPI (which excludes the volatile food and energy prices) were unchanged last month. Energy prices, which had fallen sharply in September and October, fell 0.2 percent in November. The overall CPI has risen by 2.0 percent and the core by 2.6 percent in the past 12 months (see top chart). That rise in the core CPI is larger than the Federal Reserve would like to see on a sustained basis, but core inflation has moderated substantially in recent months.
- **Retail sales posted solid gains last month.** Total sales at retail establishments and food services rose by 1.0 percent in November, the first increase since July. That growth was broadly based, with increases of 0.9 percent for motor vehicles and parts, 2.3 percent for gasoline, and 0.9 percent for all other sales. Total sales were 5.6 percent higher than they were a year earlier.
- **Industrial production rose modestly in November.** Industrial production in manufacturing, mining, and utilities rose by 0.2 percent last month, the first gain since August. Factory output rose by 0.3 percent to a level 3.4 percent above a year earlier.
- **New homebuilding rose last month but remains weak.** The number of new privately owned housing units started rose by 6.7 percent in November, to 1.588 million units at an annual rate. However, homebuilding was still 25.5 percent below its level a year earlier and permits to build fell to a nine-year low.
- **The current account deficit widened in the third quarter.** The U.S. current account deficit, which combines the balance on trade in goods and services with the balance on international income flows and transfers, grew by \$8.5 billion to \$225.6 billion in the third quarter. The trade deficit component widened by \$7.2 billion in the quarter to \$200.3 billion. At 6.8 percent of gross domestic product, the overall third-quarter current account deficit remained at an historically high level (see bottom chart).

The Economy at a Glance	Nov	Oct	Sep	Aug	2006 Qtr 3	2006 Qtr 2	2006 Qtr 1	2005 Qtr 4	2005	2004
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	2.2	2.6	5.6	1.8	3.2	3.9
Industrial Production (% growth)	2.4	0	-4.7	2.4	4.0	6.5	5.0	4.7	3.2	2.5
Capacity Utilization (level, %)	81.8	81.8	82.0	82.4	82.3	82.0	81.2	80.7	80.2	78.1
Civilian Unemployment Rate (level, %)	4.5	4.4	4.6	4.7	4.7	4.7	4.7	5.0	5.1	5.5
Housing Starts (thousands)	1588	1488	1724	1659	1714	1873	2123	2060	2073	1950
Real Disposable Personal Income (% growth)*	n.a.	7.0	10.5	3.6	3.7	-1.5	4.6	5.5	1.2	3.6
Retail Sales (% growth)	13.2	-0.8	-6.9	0.2	3.7	3.3	13.2	2.3	7.2	6.2
Personal Saving Rate (level, %)*	n.a.	-0.6	-0.7	-1.3	-1.3	-1.4	-0.3	-0.3	-0.4	2.0
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	0	-5.8	-5.8	2.4	2.9	5.0	2.2	3.2	3.4	2.7
Core CPI-U Inflation (% growth)	0	1.2	2.4	2.4	3.0	3.5	2.4	2.4	2.2	1.8
Compensation per hour (% growth)	—	—	—	—	4.1	3.6	2.4	3.2	3.3	3.7
Output per hour (% growth)	—	—	—	—	0.2	1.2	4.3	-0.1	2.3	3.0
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	4.94	4.92	4.81	4.96	4.91	4.70	4.39	3.83	3.15	1.37
T-note Rate, 10-years (level, %)	4.60	4.73	4.72	4.88	4.90	5.07	4.57	4.49	4.29	4.27
Federal Funds Rate (level, %)	5.25	5.25	5.25	5.25	5.25	4.91	4.46	3.98	3.22	1.35
Dow Jones Industrial Avg (index level)	12185	11963	11534	11257	11274	11189	10996	10616	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\* Subject to revision over the next week.

### Upcoming Economic Releases:

- **Gross Domestic Product (Final) and Corporate Profits (Revised): Third Quarter 2006** [Release: Thursday, December 21]
- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: November 2006** [Release: Friday, December 22]
- **Personal Income and Outlays: November 2006** [Release: Friday, December 22]